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1990

Department of the Treasury
Internal Revenue Service

Instructions for Form 990-C

Farmers' Cooperative Association Income Tax Return

(Section references are to the Internal Revenue Code unless otherwise noted.)

Paperwork Reduction Act Notice.—We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us this information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping . . .	75 hrs., 34 min.
Learning about the law or the form . . .	23 hrs., 4 min.
Preparing the form .	40 hrs., 13 min.
Copying, assembling, and sending the form to IRS	4 hrs., 17 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to both the **Internal Revenue Service,** Washington, DC 20224, Attention: IRS Reports Clearance Officer, T:FP; and the **Office of Management and Budget,** Paperwork Reduction Project (1545-0051), Washington, DC 20503.

DO NOT send the tax form to either of these offices. Instead, see the instructions below for information on where to file.

Important Change

New **Form 8826,** Disabled Access Credit, has been developed as a result of the addition of section 44 by the Revenue Reconciliation Act of 1990. This allows eligible small businesses to claim a new nonrefundable income tax credit equal to 50% of expenses that are over $250 and not more than $10,250. These expenses must be paid or incurred after November 5, 1990, to enable a small business to comply with the requirements of the Americans With Disabilities Act of 1990. An eligible small business is one with gross receipts of $1 million or less in the previous tax year or one that had not more than 30 full-time employees in the previous tax year. Examples of expenses eligible for the credit include amounts paid or incurred: (1) to remove barriers that prevent a business from being accessible to, or usable by, individuals with disabilities; (2) to provide qualified interpreters or other methods of making audio materials available to hearing-impaired individuals; (3) to provide qualified readers, taped texts, and other methods of making visual materials available to individuals with visual impairments; or (4) to acquire or modify equipment or devices for individuals with disabilities.

General Instructions

A. Purpose of Form

Form 990-C, Farmers' Cooperative Association Income Tax Return, is used to report the cooperative's income, gains, losses, deductions, credits, and to figure their income tax liability.

B. Filing Form 990-C

Who Must File.—Every farmers' cooperative association must file Form 990-C whether or not the association has taxable income (Regulations section 1.6012-2(f)).

Generally, a farmers' cooperative is a farmers', fruit growers', or like association organized and operated on a cooperative basis to:

(1) Market the products of members or other producers and turn back to them the proceeds of sales, less the necessary marketing expenses, on the basis of either the quantity or the value of their products; **OR**

(2) Purchase supplies and equipment for the use of members or other persons and turn over the supplies and equipment to them at actual cost, plus necessary expenses.

A producer is a person who, as owner or tenant, bears the risk of production and receives income based on farm production rather than fixed compensation. For example, if a corporation leases its land to a tenant farmer who agrees to pay a rental fee based on a percentage of the farm crops produced, both the landowner and the tenant farmer qualify as producers.

When To File.—In general, a cooperative must file its income tax return by the 15th day of the 9th month after the end of its tax year.

Extension.—File **Form 7004,** Application for Automatic Extension of Time To File Corporation Income Tax Return, to request an automatic 6-month extension of time to file Form 990-C.

Period Covered.—File the 1990 return for the calendar year 1990 and fiscal years beginning in 1990. If the return is for a fiscal year, fill in the tax year space in the form heading.

Where To File.—

If the principal office of the organization is located in ▼	Use the following Internal Revenue Service Center address ▼
Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee	Atlanta, GA 39901
Arizona, Colorado, Kansas, New Mexico, Oklahoma, Texas, Utah, Wyoming	Austin, TX 73301
Indiana, Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Alaska, California, Hawaii, Idaho, Nevada, Oregon, Washington	Fresno, CA 93888
Connecticut, Maine, Massachusetts, New Hampshire, New York, Rhode Island, Vermont	Holtsville, NY 00501
Illinois, Iowa, Minnesota, Missouri, Montana, Nebraska, North Dakota, South Dakota, Wisconsin	Kansas City, MO 64999
Delaware, District of Columbia, Maryland, New Jersey, Pennsylvania, Virginia, any U.S. possession, or foreign country	Philadelphia, PA 19255

Signature.—The return must be signed and dated by the president, vice president, treasurer, assistant treasurer, chief accounting officer, or any other officer (such as tax officer) authorized to sign. A receiver, trustee, or assignee must sign and date any return required to be filed on behalf of a cooperative.

If a cooperative officer filled in Form 990-C, the Paid Preparer's space under "Signature of officer" should remain blank. If someone prepares Form 990-C and does not charge the cooperative, that person should not sign the return. Certain others who prepare Form 990-C should not sign. For example, a regular full-time employee of the cooperative such as a clerk, secretary, etc., does not have to sign.

Generally, anyone who is paid to prepare Form 990-C must sign the return and fill in the other blanks in the Paid Preparer's Use Only area of the return.

The preparer required to sign the return **MUST** complete the required preparer information and:

- Sign it, by hand, in the space provided for the preparer's signature. (Signature stamps or labels are not acceptable.)
- Give a copy of Form 990-C to the taxpayer in addition to the copy filed with IRS.

C. Figuring and Paying the Tax

1. Accounting

Accounting Methods.—Taxable income must be figured using the method of accounting regularly used in keeping the cooperative's books and records. In all cases the method used must clearly reflect taxable income. See section 446.

Cooperatives are generally required to use the accrual method of accounting if their average annual gross receipts are more than $5,000,000. Cooperatives

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changing to the accrual method because of this provision must complete **Form 3115,** Application for Change in Accounting Method, and attach it to Form 990-C. The cooperative must also show on a statement accompanying Form 3115 the period over which the section 481(a) adjustment will be taken into account and the basis for the conclusion. See section 448 and Temporary Regulations sections 1.448-1T(g) and 1.448-1T(h) for more information. Include the amount reportable as income in 1990 under section 481(a) on line 10, page 1.

Unless the law specifically permits otherwise, the cooperative may change the method of accounting used to report taxable income in earlier years (for income as a whole or for any material item) only by first getting consent on Form 3115. Also see **Pub. 538,** Accounting Periods and Methods.

Completed Crop Pool Method of Accounting.—Cooperatives may use the completed crop pool method of accounting for crop pools open before March 1, 1978. This provision is limited to cooperatives which have been using this method of accounting for at least 10 tax years ending with the first tax year beginning after December 31, 1976, and who enter into an agreement with the U.S. Government for a loan using the pool as collateral and make price support advances to eligible producers in amounts equal to the proceeds of the loan. See section 1382(g).

Change in Accounting Period.—Generally, before changing an accounting period, the Commissioner's approval must be obtained (Regulations section 1.442-1) by filing **Form 1128,** Application to Adopt, Change, or Retain a Tax Year. Also see Pub. 538.

2. Rounding Off to Whole-Dollar Amounts

Money items may be shown on the return and accompanying schedules as whole-dollar amounts. To do so, drop any amount less than 50 cents and increase any amount from 50 cents through 99 cents to the next higher dollar.

3. Depositary Method of Tax Payment

Deposit cooperative income tax payments (and estimated tax payments) with a Federal Tax Deposit Coupon **(Form 8109).** Make these tax deposits with either a financial institution qualified as a depositary for Federal taxes or the Federal Reserve bank or branch servicing the geographic area where the cooperative is located. Do not submit deposits directly to an IRS office; otherwise, the cooperative may be subject to a failure to deposit penalty. Records of deposits will be sent to the IRS for crediting to the cooperative's account. See the instructions contained in the coupon book for more information. To get more deposit forms, use the reorder form **(Form 8109A)** provided in the coupon book.

To help ensure proper crediting to the cooperative's account, write the cooperative's employer identification number (EIN), "Form 990-C," and the tax period to which the deposit applies on the cooperative's check or money order.

A penalty may be imposed for failure to deposit the required amount of tax. See section 6655.

For more information concerning deposits, see **Pub. 583,** Taxpayers Starting a Business.

4. Estimated Tax

Generally, a cooperative must make estimated tax payments if it can expect its estimated tax (income tax minus credits) to be $500 or more. Use **Form 1120-W,** Corporation Estimated Tax, as a worksheet to compute estimated tax. Use the deposit coupons (Forms 8109) in making deposits of estimated tax.

If the cooperative overpaid estimated tax, it may be able to get a "quick refund" by filing **Form 4466,** Corporation Application for Quick Refund of Overpayment of Estimated Tax. The overpayment must be both: **(1)** at least 10% of expected income tax liability, and **(2)** at least $500. To apply, file Form 4466 after the end of the tax year, but before the 16th day of the third month thereafter, and before the cooperative files its tax return.

5. Timing Change in Deducting Accrued Expenses

Generally, an accrual basis taxpayer can deduct accrued expenses in the tax year that all events have occurred that determine the liability, and the amount of the liability can be figured with reasonable accuracy. However, generally all the events that establish liability for the amount are treated as occurring only when economic performance takes place. There are exceptions for recurring items. See section 461(h).

D. Interest and Penalties

Avoid interest and penalties by correctly filing the return and paying the tax when due. The cooperative may have to pay the following penalties unless it can show that failure to file or pay was due to reasonable cause and not willful neglect.

1. Interest.—Interest is charged on taxes not paid by the due date even if an extension of the time to file is granted. Interest is also charged on penalties for failure to file, negligence, fraud, gross valuation overstatements, and substantial understatements of tax from the due date (including extensions) to the date of payment. The interest charge is figured at a rate determined under section 6621.

2. Late Filing of Return.—A cooperative that fails to file its tax return when due (including extensions of time for filing) may be subject to a penalty of 5% of the unpaid tax for each month or fraction of a month the return is not filed. The penalty cannot exceed 25% of the unpaid tax. The minimum penalty for a return that is more than 60 days late is the smaller of the tax due or $100.

3. Late Payment of Tax.—Generally, the penalty for not paying tax when due is ½ of 1% of the unpaid amount for each month or fraction of a month the tax remains unpaid. The penalty cannot exceed 25% of the amount due. It also applies to any additional tax shown on a bill not paid within 10 days of the date of the notice and demand for payment.

4. Underpayment of Estimated Tax.—A cooperative that fails to make estimated tax payments when due may be subject to an underpayment penalty for the period of underpayment. In general, to avoid the estimated tax penalty, the cooperative must make estimated tax payments of at least 90% of the tax shown on the return or 100% of its prior year's tax. See section 6655 for details and exceptions.

Form 2220, Underpayment of Estimated Tax by Corporations, is used to see if the cooperative owes a penalty and to figure the amount of the penalty. In certain cases, you may be required to complete and attach Form 2220 if no penalty is due. See Form 2220 for details. If you attach Form 2220, be sure to check the box on line 33, page 1, and enter the amount of any penalty on this line.

5. Other Penalties.—There are also penalties that can be imposed for negligence, substantial understatement of tax, and fraud. See sections 6662 and 6663.

E. Other Forms, Returns, Schedules, and Statements That May Be Required

1. Forms

The cooperative may have to file any of the following:

Forms W-2 and **W-3.** Wage and Tax Statement; and Transmittal of Income and Tax Statements.

Form W-2P. Statement for Recipients of Annuities, Pensions, Retired Pay, or IRA Payments.

Form 966. Corporate Dissolution or Liquidation.

Forms 1042 and **1042S.** Annual Withholding Tax Return for U.S. Source Income of Foreign Persons; and Foreign Person's U.S. Source Income Subject to Withholding. Use these forms to report and transmit withheld tax on payments or distributions made to nonresident alien individuals, foreign partnerships, or foreign corporations to the extent such payments or distributions constitute gross income from sources within the U.S. (see sections 861 through 865). For more information, see sections 1441 and 1442, and **Pub. 515,** Withholding of Tax on Nonresident Aliens and Foreign Corporations.

Form 1096. Annual Summary and Transmittal of U.S. Information Returns.

Form 1098. Mortgage Interest Statement. This form is used to report the receipt from any individual of $600 or more of mortgage interest in the course of the cooperative's trade or business for any calendar year.

Forms 1099-A, B, DIV, INT, MISC, OID, PATR, R, and **S.** Information returns for reporting abandonments, acquisitions through foreclosure, proceeds from broker and barter exchange transactions, certain dividends and distributions, interest

payments, payments for certain fishing boat crew members, medical and dental health care payments, direct sales of consumer goods for resale, miscellaneous income payments, nonemployee compensation, original issue discount, patronage dividends, total distributions from profit-sharing plans, retirement plans, individual retirement arrangements, insurance contracts, etc., and proceeds from real estate transactions. Also use these returns to report amounts that were received as a nominee on behalf of another person. For more information, see the instructions for Form 1099.

Note: *Every cooperative must file information returns if, in the course of its trade or business, it makes payments of rents, commissions, or other fixed or determinable income (see section 6041) totaling $600 or more to any one person during the calendar year.*

Form 5452. Corporate Report of Nondividend Distributions.

Form 5498. Individual Retirement Arrangement Information. Use this form to report contributions (including rollover contributions) to an individual retirement arrangement (IRA) and the value of an IRA or simplified employee pension account.

Form 5713. International Boycott Report, for persons having operations in or related to "boycotting" countries. In addition, persons who participate in or cooperate with an international boycott may have to complete Schedule A or B and Schedule C of Form 5713 to compute their loss of the following items: the foreign tax credit, the deferral of earnings of a controlled foreign corporation, IC-DISC benefits, and FSC benefits.

Form 8264. Application for Registration of a Tax Shelter. It is used by tax shelter organizers to register tax shelters with the IRS, for the purpose of receiving a tax shelter registration number.

Form 8271. Investor Reporting of Tax Shelter Registration Number. It is used by taxpayers who have acquired an interest in a tax shelter, which is required to be registered, to report the tax shelter's registration number. Form 8271 must be attached to any tax return (including an application for tentative refund (Form 1139) and an amended return) on which a deduction, credit, loss, or other tax benefit attributable to a tax shelter is taken or any income attributable to a tax shelter is reported.

Form 8300. Report of Cash Payments Over $10,000 Received in a Trade or Business. Generally, this form is used to report the receipt of more than $10,000 in cash or foreign currency in one transaction (or a series of related transactions).

Form 8594, Asset Acquisition Statement, is to be filed by both the purchaser and seller of a group of assets constituting a trade or business if goodwill or a going concern value attaches, or could attach, to such assets and the purchaser's basis in the assets is determined only by the amount paid for the assets.

Form 8810. Corporate Passive Activity Loss and Credit Limitations. Closely held cooperatives, which are subject to the passive activity limitations of section 469, use this form to compute their allowable passive activity loss and credit.

Form 8817. Allocation of Patronage and Nonpatronage Income and Deductions. Certain cooperatives whose gross receipts are less than $10 million and that have patronage and nonpatronage source income and deductions, must complete and attach this form to their return.

Form 8822, Change of Address. This form may be used to notify the IRS if the cooperative's mailing address changes.

2. Consolidated Return

The nonexempt cooperative parent of an affiliated group of corporations must attach **Form 851,** Affiliations Schedule, to the consolidated return. For the first year a consolidated return is filed, each subsidiary must attach **Form 1122,** Authorization and Consent of Subsidiary Corporation to be Included in a Consolidated Income Tax Return.

File supporting statements for each corporation included in the consolidated return. Use columns to show the following, both before and after adjustments:

- Items of gross income and deductions.
- A computation of taxable income.
- Balance sheets as of the beginning and end of tax year.
- A reconciliation of retained earnings.
- A reconciliation of income per books with income per return.

Attach consolidated balance sheets and a reconciliation of consolidated retained earnings.

3. Financial Statements

A cooperative is not required to complete Schedules M-1 and M-2 if the cooperative's total assets at the end of the tax year (line 13, column (d) of Schedule L, Form 990-C) are less than $25,000.

4. Attachments

Please complete every applicable entry space on Form 990-C. Do not attach statements and write "See attached" in lieu of completing the entry spaces on Form 990-C. If more space is needed on the forms or schedules, attach separate sheets indicating at the top of each attachment the form number or schedule letter of the form or schedule being continued. Show the same information called for on the form in the same order as on the printed forms. **Be sure to show totals on the printed forms.** Please use sheets that are the same size as the forms and schedules. Attach these separate sheets after all the forms and schedules. Also, put the cooperative's name and EIN on each sheet.

F. Additional Information

Be sure to answer questions F through V on page 5, Form 990-C, as applicable. The instructions that follow are keyed to these questions.

1. Question R

Foreign financial account.—Check the "Yes" box if either **a** or **b** below applies to the cooperative; otherwise, check the "No" box:

a. At any time during the year the cooperative had an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account); **AND (1)** The combined value of the accounts was more than $10,000 at any time during the year; **AND (2)** The account was NOT with a U.S. military banking facility operated by a U.S. financial institution.

b. The cooperative owns more than 50% of the stock in any corporation that would answer "Yes" to item **a** above.

Get **Form TD F 90-22.1,** Report of Foreign Bank and Financial Accounts, to see if the cooperative is considered to have an interest in or signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account).

If "Yes" is checked for this question, file Form TD F 90-22.1 by June 30, 1991, with the Department of the Treasury at the address shown on the form. Form TD F 90-22.1 is not a tax return. Do **NOT** file it with Form 990-C.

Form TD F 90-22.1 may be obtained from IRS Forms Distribution Centers.

Also, if "Yes" is checked for this question, write the name of the foreign country or countries. Attach a separate sheet if more space is needed.

2. Question U

Report any tax-exempt interest received or accrued in the space provided. Include any exempt-interest dividends received as a shareholder in a mutual fund or other regulated investment company.

Specific Instructions

Name and Address.—Please use the label which accompanied the form or copy the exact name of the cooperative. If the name or address on the label is wrong, draw a line through the incorrect part and enter the correct information. Also, include the suite, room, or other unit number after the street address. If a pre-addressed label is used, please include this information on the label. If the Post Office does not deliver mail to the street address and the cooperative has a P.O. box, show the P.O. box number instead of the street address.

Item A. Identify the business activity from which the cooperative receives the largest total receipts (e.g., wholesale marketing of meat; drying fruit; grain storage; wholesale purchasing of fertilizers; cattle breeding; etc).

Item B. Employer identification number.—If the EIN on the label is wrong or if the cooperative did not receive a label, enter the correct number.

A cooperative that does not have an EIN should apply for one on **Form SS-4,**

Application for Employer Identification Number. This form may be obtained from most IRS and Social Security Administration offices. Send Form SS-4 to the same Internal Revenue Service Center to which Form 990-C is mailed. If the EIN has not been received by the filing time for the cooperative's return, write "Applied for" in the space for the EIN.

For more information concerning an EIN, see Pub. 583.

Item C. See General Instruction E2, consolidated returns. Do not check this box if the "Section 521" box is checked in Item D.

Item D. Type of Organization.—Check the "Section 521" box if the organization is a tax-exempt farmers', fruit growers', or like association that is organized and operated on a cooperative basis and is described in section 521. If the organization has submitted **Form 1028,** Application for Recognition of Exemption, but has not yet received a determination letter from the IRS, check the "Section 521" box and write "Application Pending" at the top of page 1 of Form 990-C.

All other farmers', etc., cooperatives organized and operated as described under "Who Must File" on page 1 of the instructions should check the "Other" box. Cooperatives organized and operated for purposes other than those described, such as to purchase food for members, should not file Form 990-C. See the instructions for **Form 1120,** U.S. Corporation Income Tax Return, for information about filing requirements.

Item E. Initial return, final return, and change in address.—Indicate by checking the applicable box if this is the cooperative's first return, or if the cooperative has ceased to exist, or it has had a change in address.

Income

Note: *Generally, income from all sources, whether U.S. or foreign, must be included.*

Line 1. Gross receipts or sales.—Enter gross receipts or sales from all business operations except those required to be reported on lines 4a through 10. For reporting advance payments, see Regulations section 1.451-5.

For dealer dispositions before March 1, 1986, of property used or produced in the trade or business of farming, reported under the installment method, enter on line 1 the gross profit on collections from installment sales and carry the same amount to line 3. Attach a schedule showing the following for the current year and the 3 preceding years: **(1)** gross sales, **(2)** cost of goods sold, **(3)** gross profit, **(4)** percentage of gross profit to gross sales, **(5)** amount collected, and **(6)** gross profit on amount collected.

Accrual basis taxpayers generally need not accrue income from the performance of services that, on the basis of their experience, will not be collected (section 448(d)(5)). This provision does not apply to any amount if interest is required to be paid on such amount or if there is any penalty for failure to timely pay such amount. Cooperatives that fall under this provision should attach a schedule showing total gross receipts, amount not accrued as a result of the application of section 448(d)(5), and the net amount accrued. The net amount should be entered on line 1a. For more information and guidelines on this "non-accrual experience method," see Temporary Regulations section 1.448-2T.

Line 2. Cost of goods sold.—Enter the amount from line 9, Schedule A, on line 2, page 1. Complete Schedule A as follows:

Line 4a.—Enter per-unit retain allocations paid in qualified per-unit retain certificates. Qualified per-unit retain certificates are issued to patrons who have consented to include the stated dollar amount in current income.

Line 4b.—Enter per-unit retain allocations paid in money or other property (except nonqualified per-unit retain certificates).

Line 5.—Enter the amount paid in money or other property (except per-unit retain certificates) to patrons to redeem nonqualified per-unit retain certificates. If a per-unit retain certificate does not qualify, no deduction is allowable at the time it is issued. However, the cooperative is entitled to a deduction or refund of tax when the nonqualified per-unit retain certificate is finally redeemed (provided that the nonqualified per-unit retain certificate was paid as a per-unit retain allocation during the payment period for the tax year during which the marketing occurred). The deduction is allowed only for amounts paid in money or other property (other than per-unit retain certificates) that are not more than the stated dollar amount of the nonqualified per-unit retain certificate. See section 1382(b).

See section 1383 and the instructions for line 32f for a special rule for figuring the cooperative's tax in the year of redemption of a nonqualified per-unit retain certificate.

If the inventories reported do not agree with the balance sheet, attach a statement explaining the difference.

Line 6a.—An entry is required on this line only for cooperatives electing a simplified method of accounting. In the case of cooperatives electing the simplified production method, additional section 263A costs are generally costs, other than interest, that were not capitalized or included in inventory costs under the cooperative's method of accounting immediately prior to the effective date in Temporary Regulations section 1.263A-1T, but that are now required to be capitalized under section 263A. In the case of cooperatives electing the simplified resale method, additional section 263A costs are generally costs incurred with respect to the following categories: Off-site storage or warehousing; purchasing; handling, processing, assembly and repackaging; and general and administrative costs (mixed service costs). Enter on line 6a the balance of section 263A costs paid or incurred during the tax year not included on lines 2 and 3. See Temporary Regulations section 1.263A-1T for more information.

Line 6b.—Enter any costs paid or incurred during the tax year not entered on lines 2 through 6a.

Inventory valuation methods. Inventories can be valued at: **(1)** cost; **(2)** cost or market value (whichever is lower); or **(3)** any other method that is approved by the Commissioner of Internal Revenue, and that conforms to the provisions of the applicable regulations cited below.

Taxpayers using erroneous valuation methods must change to a method permitted for Federal income tax purposes. Such a change should be made by filing Form 3115. For more information about the change, see Regulations section 1.446-1(e)(3) and Rev. Proc. 84-74, 1984-2 C.B. 736 as modified by Rev. Proc. 88-15, 1988-1, C.B. 683.

On line 10a of Schedule A, check the method(s) used for valuing inventories. Under "lower of cost or market," *"market"* generally applies to normal market conditions where there is a current bid price prevailing at the date the inventory is valued. When no regular open market exists or when quotations are nominal because of inactive market conditions, use fair market prices from the most reliable sales or purchase transactions that occurred near the date the inventory is valued. For more requirements, see Regulations section 1.471-4.

Inventory may be valued below cost when the merchandise is: **(1)** unsalable at normal prices, or **(2)** unsalable in the normal way because the goods are "subnormal" (because of damage, imperfections, shop wear, etc.) within the meaning of Regulations section 1.471-2(c). Such goods may be valued at a current bona fide selling price, minus direct cost of disposition (but not less than scrap value) if such a price can be established. See Regulations section 1.471-2(c) for more requirements.

If this is the first year the "Last-in-first-out" (LIFO) inventory method was either adopted or extended to inventory goods not previously valued under the LIFO method provided in section 472, attach **Form 970,** Application to Use LIFO Inventory Method, or a statement with the information required by Form 970. Also check the LIFO box on line 10b of Schedule A. Enter the amount or percent of total closing inventories covered under section 472 on line 10c. Estimates are acceptable.

If the cooperative changed or extended its inventory to LIFO and had to "write up" its opening inventory to cost in the year of election, report the effect of this writeup as income (line 10, page 1) proportionately over a 3-year period that begins in the tax year you made this election (section 472(d)).

Section 263A Uniform Capitalization Rules. The uniform capitalization rules of section 263A are discussed in general in the instructions for **Limitations on deductions** on page 5. See those instructions before proceeding.

Line 5. Interest.—Enter taxable interest on U.S. obligations and on loans, notes, mortgages, bonds, bank deposits, corporate bonds, tax refunds, etc.

Do not offset interest expense against interest income.

Special rules apply to interest income from certain below-market rate loans. See section 7872 for details.

Note: *Interest income is generally non-patronage income to nonexempt cooperatives (Regulations section 1.1382-3(c)(2)). As such, a patronage dividend deduction may not be deductible from interest expense.*

Line 6. Gross rents.—Enter the gross amount received for the rent of property. Deduct expenses such as repairs, interest, taxes, and depreciation on the proper lines for deductions.

Generally, gross rents are considered nonpatronage income to nonexempt cooperatives (Regulations section 1.1382-3(c)(2)). As such, a patronage dividend deduction may not be deductible from rental expense.

Line 8. Capital gain net income.—Complete **Schedule D (Form 1120),** Capital Gains and Losses. Every sale or exchange of a capital asset must be reported in detail on Schedule D (Form 1120), even though no gain or loss is indicated. Generally, capital gains and losses are considered nonpatronage source.

Line 9. Net gain or (loss).—Enter the net gain or (loss) from line 18, Part II, **Form 4797,** Sales of Business Property.

Line 10. Other income.—Enter any other taxable income not listed above, and explain its nature on an attached schedule. Examples of other income are: any adjustment under section 481(a) required to be included in income during the current tax year due to a change in method of accounting; recoveries of bad debts deducted in prior years under the specific charge-off method; the amount of credit for alcohol used as fuel (determined without regard to the limitation based on tax) that was entered on **Form 6478,** Credit for Alcohol Used as Fuel; and refunds of taxes deducted in prior years to the extent they reduced income subject to tax in the year deducted (see section 111). Do not offset current year's taxes with tax refunds.

For cooperatives described in section 1381 that are shareholders in a FSC, include the non-exempt portion of foreign trade income derived from the sale or other disposition of agricultural or horticultural products by the FSC for the tax year that includes the last day of the FSC's tax year, even though the FSC is not required to distribute such income until the due date of its income tax return.

If "other income" consists of only one item, describe it in parentheses on line 10. If more than one item of other income is reported, attach a schedule listing each item.

Deductions

Limitations on deductions

1. Transactions between related taxpayers.—See section 267 for the limitation on deductions for unpaid expenses and interest.

2. Section 291 limitations.—Cooperatives may be required to adjust deductions for depletion of iron ore and coal, intangible drilling, exploration and development costs, and the amortizable basis of pollution control facilities. See section 291 to determine the amount of the adjustment.

3. Section 263A uniform capitalization rules.—The rules require cooperatives to capitalize or include in inventory certain costs incurred in connection with the production of real and personal tangible property held in inventory or held for sale in the ordinary course of business. The rules also apply to personal property (tangible and intangible) acquired for resale. Cooperatives subject to the rules are required to capitalize not only direct costs but an allocable portion of most indirect costs (including taxes) that relate to the assets produced or acquired for resale. Interest expense paid or incurred in the course of production must be capitalized and is governed by special rules. The uniform capitalization rules also apply to the production of property constructed or improved by a cooperative for use in its trade or business or in an activity engaged in for profit.

Section 263A does not apply to personal property acquired for resale if the cooperative's annual average gross receipts are $10 million or less. It does not apply to timber or to most property produced under a long-term contract. Special rules apply to farmers. The rules do not apply to property that is produced for use by the cooperative if substantial construction had occurred before March 1, 1986.

In the case of inventory, some of the indirect costs that must be capitalized are administration expenses, taxes, depreciation, insurance, compensation paid to officers, costs attributable to services, rework labor, and contributions to pension, stock bonus, and certain profit-sharing, annuity, or deferred compensation plans.

The costs required to be capitalized under section 263A are not deductible until the property to which the costs relate is sold, used, or otherwise disposed of by the cooperative.

Current deductions may still be claimed for research and experimental costs under section 174, intangible drilling costs for oil and gas and geothermal property, and mining and exploration and development costs. Temporary Regulations section 1.263A-1T specifies indirect costs that may be currently deducted and those that must be capitalized with respect to production or resale activities. For more information, see Temporary Regulations section 1.263A-1T.

4. Golden parachute payments.—A portion of the payments made by a cooperative to key personnel that exceeds their usual compensation may not be deductible. This occurs when the cooperative has an agreement (golden parachute) with these key employees to pay them these excessive amounts if control of the cooperative changes. See section 280G.

5. Business startup expenses.—Business startup expenses are required to be capitalized unless an election is made to amortize them over a period of 60 months. See section 195.

6. Passive activity limitations.—Limitations on passive activity losses and credits under section 469 apply to closely held cooperatives (defined below) and personal service corporations as defined in Temporary Regulations section 1.441-4T. A cooperative is a closely held cooperative for this purpose if at any time during the last half of the tax year more than 50% in value of its outstanding stock is owned, directly or indirectly, by or for not more than 5 individuals, and the cooperative is not a personal service corporation. Certain organizations are treated as individuals for purposes of this test. See section 542(c)(2). For rules of determining stock ownership, see section 544 (as modified by section 465(a)(3)).

There are two kinds of passive activities: trade or business activities in which the cooperative did not materially participate for the tax year, and rental activities regardless of its participation. An activity is a trade or business activity if the activity involves the conduct of a trade or business (i.e., deductions from the activity would be allowable under section 162 if other limitations, such as the passive loss rules, did not apply), or research or experimental expenditures in the activity are deductible under section 174 (or would be deductible if the cooperative chose to deduct rather than capitalize them), and the activity is not a rental activity. Temporary Regulations section 1.469-1T(g)(3) defines material participation of cooperatives.

Cooperatives subject to the passive activity limitations must complete Form 8810 to compute their allowable passive activity loss and credit. Before completing Form 8810, see Temporary Regulations section 1.163-8T, which provides rules for allocating interest expense among activities. If a passive activity is also subject to the at-risk rules of section 465, the at-risk rules apply before the passive loss rules. For more information, see section 469, the Temporary Regulations thereunder, and **Pub. 925,** Passive Activity and At-Risk Rules.

Line 12. Compensation of officers.—In addition to entering officers' compensation deductible on line 12, filers of Form 990-C must complete columns (a) through (f) of Schedule E for all officers if total receipts (line 1a plus lines 4 through 10, page 1) are $500,000 or more. Do not include compensation deductible elsewhere on the return, such as amounts included in cost of goods sold, elective contributions to a section 401(k) cash or deferred arrangement, or amounts contributed under a salary reduction SEP agreement. Complete Schedule E, line 1, columns (a) through (f), for all officers. The cooperative determines who is an officer under the laws of the state where organized.

In a consolidated return, each member of an affiliated group must furnish this information.

Line 13. Salaries and wages.—Enter on line 13a the total salaries and wages (other than salaries and wages deducted elsewhere on the return, such as contributions to a Simplified Employee Pension Plan, which are deducted on line 24) paid or incurred for the tax year.

Caution: *If the cooperative provided taxable fringe benefits to its employees, such as personal use of an auto, do not deduct as wages the amount allocated for depreciation and other expenses claimed on lines 20 and 26.*

Enter on line 13b the jobs credit from **Form 5884,** Jobs Credit.

Line 14. Repairs.—Enter the cost of incidental repairs, such as labor and supplies, that do not add to the value or appreciably prolong the life of the property.

Line 15. Bad debts.—Enter the total debts that became worthless in whole or in part during the tax year.

Line 17. Taxes.—Enter taxes paid or accrued during the tax year, but do not include the following: **(1)** Federal income taxes (except the environmental tax under section 59A); **(2)** Foreign or U.S. possession income taxes if a tax credit is claimed; **(3)** Taxes not imposed on the cooperative; or **(4)** Taxes, including state or local sales taxes, that are paid or incurred in connection with an acquisition or disposition of property (such taxes must be treated as part of the cost of the acquired property, or in the case of a disposition, as a reduction in the amount realized on the disposition). See section 164(d) for dividing real estate taxes between the seller and purchaser.

If the cooperative is liable for environmental tax under section 59A, see **Form 4626,** Alternative Minimum Tax—Corporations.

Line 18. Interest.—Do not include interest on indebtedness incurred or continued to purchase or carry obligations on which the interest is wholly exempt from income tax. For exceptions, see section 265(b).

If the cooperative is a cash basis taxpayer, and in 1990 it prepaid interest for any period after 1990, it can only deduct the amount attributable to 1990. See **Pub. 545,** Interest Expense.

Do not deduct interest on debt allocable to the production of qualified property.

Interest that is allocable to certain property produced by a cooperative for its own use or for sale must be capitalized. A cooperative must also capitalize any interest on debt allocable to an asset used to produce the above property. See section 263A and Notice 88-99, 1988-2 C.B. 422 for definitions and more information.

Generally, the interest and carrying charges on straddles must be capitalized. See section 263(g).

See section 163(e)(5) which provides special rules for the disqualified portion of original issue discount on a high yield discount obligation.

Certain interest paid or accrued by the cooperative (directly or indirectly) to a related person may be limited to the cooperative's excess interest expense for the tax year. See section 163(j) for more information.

See section 7872 for special rules regarding the deductibility of foregone interest on certain below-market rate loans.

Line 19. Contributions.—Enter contributions or gifts actually paid within the tax year to, or for the use of, charitable organizations described in section 170(c) and any unused contributions carried over from prior years.

The total amount claimed may not be more than 10% of taxable income (line 30) computed without regard to the following: **(1)** any deduction for contributions; **(2)** the special deductions on line 29b, Form 990-C; **(3)** any net operating loss carryback to the tax year under section 172; **(4)** any capital loss carryback to the tax year under section 1212(a)(1); and **(5)** deductions allowed under sections 249 and 250.

Charitable contributions that are more than the 10% limitation may not be deducted for the tax year, but may be carried over to the next 5 tax years.

A contribution carryover is not allowed, however, to the extent that it increases a net operating loss carryover. See section 170(d)(2)(B).

Cooperatives on the accrual basis may elect to deduct contributions paid by the 15th day of the 3rd month after the end of the tax year if the contributions are authorized by the board of directors during the tax year. Attach to the return a declaration, signed by an officer, stating that the resolution authorizing the contributions was adopted by the board of directors during the tax year. Also, attach a copy of the resolution to the return.

If a contribution is made in property other than money and the total claimed value exceeds $500, attach a schedule describing the kind of property contributed and the method used in determining its fair market value. Closely held cooperatives must complete **Form 8283,** Noncash Charitable Contributions, and attach it to Form 990-C. All other cooperatives generally must complete and attach Form 8283 to their returns for contributions of property other than money, if the total claimed deduction for all property contributed was more than $5,000. Also, a cooperative must keep records, as required by the regulations for section 170, for all its charitable contributions.

If the cooperative made a qualified conservation contribution under section 170(h), also include the fair market value of the underlying property before and after the donation. Describe the legal interest in the property that you donated and the conservation purpose furthered by the donation.

If a contribution carryover was included, show the amount and how it was determined.

Special rules for contributions of certain property.—Generally, for a charitable contribution of property, the cooperative must reduce the contribution by the sum of:

(1) The ordinary income, short-term capital gain that would have resulted if the property were sold at its fair market value; and

(2) For certain contributions, all of the long-term capital gain that would have resulted if the property were sold at its fair market value.

The reduction for the long-term capital gain applies to:

(1) Contributions of tangible personal property for use by an exempt organization for a purpose or function unrelated to the basis for its exemption; and

(2) Contributions of any property (except for stock for which market quotations are readily available—see section 170(e)(5)) to or for the use of certain private foundations. See section 170(e) and Regulations section 1.170A-4.

For special rules for contributions of inventory and other property to certain organizations, see section 170(e)(3) and Regulations section 1.170A-4A.

Line 20. Depreciation.—Besides depreciation, include on line 20 the part of the cost (up to $10,000) that the cooperative elected to expense for certain recovery property placed in service during tax year 1990 or carried over from 1989. See the instructions for **Form 4562,** Depreciation and Amortization.

Line 22. Depletion.—See sections 613 and 613A for percentage depletion rates applicable to natural deposits. Also, see section 291 for the limitation on the depletion deduction for iron ore and coal (including lignite).

Foreign intangible drilling costs and foreign exploration and development costs must either be added to the cooperative's basis for cost depletion purposes or be deducted ratably over a 10-year period. See sections 263(i), 616, and 617 for more information.

Attach **Form T (Timber),** Forest Industries Schedules, if a deduction for depletion of timber is taken.

Line 24. Pension, profit-sharing, etc., plans.—Employers who maintain pension, profit-sharing, or other funded deferred compensation plans, whether or not qualified under the Internal Revenue Code, and whether or not a deduction is claimed for the current tax year, generally are required to file one of the forms described below. Section 6652(e) imposes a penalty for late filing of these forms. In addition, there is a penalty for overstating the pension plan deduction. See sections 6652(e) and 6662(f).

Form 5500.—For each plan with 100 or more participants.

Form 5500-C/R.—For each plan with fewer than 100 participants.

Form 5500EZ .—Complete this form for a one-participant plan.

Line 25. Employee benefit programs.—Enter the amount of contributions to

employee benefit programs not claimed elsewhere on the return (e.g., insurance, health and welfare programs) that are not an incidental part of a pension, profit-sharing, etc., plan included on line 24.

Line 26. Other deductions.—Include on this line the deduction taken for amortization of pollution control facilities, organization expenses, etc. See Form 4562.

Generally, a deduction may not be taken for the amount of any item or part thereof allocable to a class of exempt income. See section 265(b) for exceptions.

Generally, the cooperative can deduct only 80% of the amount otherwise allowable for meals and entertainment expenses paid or incurred in its trade or business. In addition, meals must not be lavish or extravagant; a bona fide business discussion must occur during, immediately before, or immediately after the meal; and your employee must be present at the meal. See section 274(k)(2) for exceptions. If the cooperative claims a deduction for unallowable meal expenses, it may have to pay a penalty.

Additional limitations apply to deductions for gifts, skybox rentals, luxury water travel, convention expenses, and entertainment tickets. See section 274 and **Pub. 463,** Travel, Entertainment, and Gift Expenses, for details.

Generally, a cooperative can deduct all other ordinary and necessary travel and entertainment expenses paid or incurred in its trade or business. However, it cannot deduct an expense paid or incurred for a facility (such as a yacht or hunting lodge) that is used for an activity that is usually considered entertainment, amusement, or recreation. **Note:** *The cooperative may be able to deduct the expense if the amount is treated as compensation and reported on Form W-2 for an employee or on Form 1099-MISC for an independent contractor.*

Note: *Do not deduct penalties imposed on cooperatives such as those included in General Instruction D.*

Line 28

Taxable income before NOL deduction and special deductions

"At-risk" rules.—Special "at-risk" rules under section 465 generally apply to closely held cooperatives (defined under **Passive Activity Limitations** on page 5) engaged in any activity as a trade or business or for the production of income. Such cooperatives may have to adjust the amount on line 28, Form 990-C. But, the at-risk rules do not apply to: (1) holding real property placed in service by the cooperative before 1987; (2) equipment leasing under sections 465(c)(4),(5), and (6); and (3) any qualifying business of a qualified cooperative under section 465(c)(7). However, the at-risk rules do apply to the holding of mineral property.

If the at-risk rules apply, adjust the amount on this line for section 465(d) losses. These losses are limited to the amount for which such cooperative is at-risk for each separate activity at the close of the tax year. If the cooperative is involved in one or more activities, one or more of which incurs a loss for the year, report the losses for each activity separately. Attach **Form 6198,** At-Risk Limitations, showing the amount at-risk and gross income and deductions for the activities with the losses.

If the cooperative sells or otherwise disposes of an asset or its interest (either total or partial) in an activity to which the at-risk rules apply, determine the net profit or loss from the activity by combining the gain or loss on the sale or disposition with the profit or loss from the activity. If the cooperative has a net loss, it may be limited because of the at-risk rules.

Treat any loss from an activity not allowed for the tax year as a deduction allocable to the activity in the next tax year.

Line 29a. Net operating loss deduction.—The "net operating loss deduction" is the amount of the net operating loss carryovers and carrybacks that can be deducted in the tax year. See section 172(a). If this deduction is taken, explain its computation on an attached schedule.

Generally, unless section 277 applies, the cooperative may carry back a net operating loss (under section 172) to each of the 3 years before the year of the loss and carry it over to each of the 15 years following the year of the loss. The cooperative may elect to carry a net operating loss (under section 172) over to each of the 15 years following the year of the loss and give up the carryback period. The election is made by attaching a statement to a timely filed return, including extensions. The election may not be revoked.

After applying the net operating loss to the first tax year to which it may be carried, the part of the loss that may be carried to each of the remaining tax years is the excess, if any, of the loss over the sum of the modified taxable income for each of the prior tax years to which the cooperative may carry the loss. See section 172(b).

If there is a carryback of a net operating loss, net capital loss, or an unused credit, file **Form 1139,** Corporation Application for Tentative Refund, within 12 months after the close of the tax year for a "quick refund" of taxes. See section 6411. See section 172 for special rules, limitations, and definitions pertaining to net operating loss carrybacks and carryovers. Also see **Pub. 536,** Net Operating Losses.

Caution: *Do not attach Form 1139 to the cooperative's income tax return. Mail it in a separate envelope and file it with the same service center where the cooperative files its income tax return.*

Line 30. Taxable income.—The taxable income reported on line 30, Form 990-C may not exceed the combined taxable income shown on line 30, Form 8817. Attach Form 8817 to the cooperative's tax return.

Caution: *Patronage source losses cannot be used to offset nonpatronage income. See section 1388(j) for more information.*

Line 32f. Credit from refiguring tax for years in which nonqualified per-unit retain certificates or nonqualified written notices of allocation (redeemed this year) were issued.—If the cooperative paid less total tax by not claiming the deduction for the redemption of nonqualified written notices of allocation or nonqualified per-unit retain certificates in the current tax year, and instead the cooperative refigured the tax for the years the nonqualified written notices or certificates were originally issued, enter the amount of the reduction in the issue years' taxes on this line. Attach a schedule showing how the credit was figured. This credit is treated as a payment, and any amount that is more than the tax on line 31 will be refunded.

Line 32g. Credit for Federal Tax on Fuels.—See Form 4136 and **Pub. 378,** Fuel Tax Credits and Refunds.

Schedule B

Income from patronage dividends and per-unit retain allocations

Enter the total patronage dividends and per-unit retain allocations from Schedule B, line 2 on line 4a, page 1. Complete Schedule B as follows:

Enter patronage dividends received in money, qualified written notices of allocation, or other property (except nonqualified written notices of allocation). Also enter the total amount of nonpatronage distributions received on a patronage basis from tax-exempt farmers' cooperatives in money, qualified written notices of allocation, or other property (except nonqualified written notices of allocation), based on earnings of that cooperative either from business done with or for the United States or any of its agencies (or from sources other than patronage, such as investment income). Include qualified written notices of allocation at their stated dollar amounts and property at its fair market value. Also enter amounts received on the redemption, sale, or other disposition of nonqualified written notices of allocation.

Generally, patronage dividends attributable to purchases of capital assets or depreciable property are not includible in income but must be used to reduce the basis of the assets. See section 1385(b) and the related regulations.

Enter the amounts received (or the stated dollar value of qualified per-unit retain certificates received) from the sale or redemption of nonqualified per-unit retain certificates.

Also enter per-unit retain allocations received (except nonqualified per-unit retain certificates). See section 1385.

Note: *Payments from the Commodity Credit Corporation to a farmers' cooperative for certain expenses of the co-op's farmers-producers under a "reseal" program of the U.S. Department of Agriculture are patronage-source income that may give rise to patronage dividends under section 1382(b)(1). See Rev. Rul. 89-97, 1989-2 C.B. 217 for more information.*

1. Refigure line 28, page 1, Form 990-C, without regard to any adjustment under section 1059 and without regard to any capital loss carryback to the year under section 1212(a)(1)	
2. Complete lines 10 and 11 of column (c) and enter the sum of those lines	
3. Subtract line 2 from line 1	
4. Multiply the amount on line 3 by 80%	
5. Enter the sum of the amounts on lines 2, 5, 7, and 8 of column (c) and the portion of the deduction on line 3 of column (c) that is attributable to dividends received from 20%-or-more-owned corporations	
6. Enter the lesser of line 4 or line 5. (Do not complete the rest of this worksheet if line 5 is greater than line 4. Instead, enter the amount from line 6 on line 9 of column (c).)	
7. Enter the total amount of dividends received from 20%-or-more-owned corporations and included on lines 2, 3, 5, 7, and 8 of column (a)	
8. Subtract line 7 from line 3	
9. Multiply the amount on line 8 by 70%	
10. Subtract line 5 above from line 9 of column (c)	
11. Enter the lesser of line 9 or line 10	
12. Dividends-received deduction after limitation (sec. 246(b)). Add the amounts on lines 6 and 11 and enter on line 9 of column (c)	

Schedule C

Dividends and Special Deductions

For purposes of the 20% ownership test on lines 1 through 7, the percentage of stock owned by the cooperative is based on voting power and value of the common stock. Preferred stock described in section 1504(a)(4) is not taken into account. Cooperatives filing a consolidated return should see Regulations sections 1.1502-14, 1.1502-26, and 1.1502-27 before completing Schedule C.

Line 1, Column (a).—Enter dividends (except those received on debt-financed stock acquired after July 18, 1984—see section 246A) that are received from less-than-20%-owned domestic corporations subject to income tax and that are subject to the 70% deduction under section 243(a)(1). Include on this line taxable distributions from an IC-DISC or former DISC that are designated as being eligible for the 70% deduction and certain dividends of Federal Home Loan Banks. See section 246(a)(2).

For dividends received from a regulated investment company, see section 854 for the amount subject to the 70% deduction.

So-called dividends or earnings received from mutual savings banks, etc., are really interest. Do not treat them as dividends.

Line 2, Column (a).—Enter dividends (except those received on debt-financed stock acquired after July 18, 1984) that are received from 20%-or-more-owned domestic corporations subject to income tax and that are subject to the 80% deduction under section 243(c). Include on this line taxable distributions from an IC-DISC or former DISC that are designated as being eligible for the 80% deduction.

Line 3, Column (a).—Enter dividends on debt-financed stock acquired after July 18, 1984, that are received from domestic and foreign corporations subject to income tax; and that would otherwise be subject to the dividends-received deduction under sections 243(a)(1), 243(c), or 245(a). Generally, debt-financed stock is stock that the corporation acquired by incurring a debt (for example, it borrowed money to buy the stock).

Line 3, Columns (b) and (c).—Dividends received on debt-financed stock acquired after July 18, 1984, are not entitled to the full 70% or 80% dividends-received deduction. The 70% or 80% deduction is reduced by a percentage that is related to the amount of debt incurred to acquire the stock. See section 246A. Also see section 245(a) before making this computation for an additional limitation that applies to dividends received from foreign corporations. A schedule showing how the amount on line 3, column (c), was figured must be attached to Form 990-C.

Line 4, Column (a).—Enter dividends received on the preferred stock of a less-than-20%-owned public utility that is subject to income tax and is allowed the deduction provided in section 247 for dividends paid.

Line 5, Column (a).—Enter dividends received on preferred stock of a 20%-or-more-owned public utility that is subject to income tax and is allowed the deduction provided in section 247 for dividends paid.

Line 6, Column (a).—Enter the U.S.-source portion of dividends that are received from less-than-20%-owned foreign corporations and that qualify for the 70% deduction under section 245(a). To qualify for the 70% deduction, the cooperative must own at least 10% of the stock of the foreign corporation by vote and value. Also include on line 6, column (a), dividends received from a less-than-20%-owned FSC that are attributable to income treated as effectively connected with the conduct of a trade or business within the U.S. (excluding foreign trade income) and that qualify for the 70% deduction provided in section 245(c)(1)(B).

Line 7, Column (a).—Enter the U.S.-source portion of dividends that are received from 20%-or-more-owned foreign corporations and that qualify for the 80% deduction under section 245(a). Also include on line 7, column (a), dividends received from a 20%-or-more-owned FSC that are attributable to income treated as effectively connected with the conduct of a trade or business within the U.S. (excluding foreign trade income) and that qualify for the 80% deduction provided in section 245(c)(1)(B).

Line 8, Column (a).—Enter dividends that are received from wholly owned foreign subsidiaries and that are eligible for the 100% deduction provided in section 245(b).

In general, the deduction under section 245(b) applies to dividends paid out of the earnings and profits of a foreign corporation for a tax year during which: **(1)** All of its outstanding stock is owned (directly or indirectly) by the domestic cooperative receiving the dividends, and **(2)** All of its gross income from all sources is effectively connected with the conduct of a trade or business within the U.S.

Line 9, Column (c)—Limitation on dividends-received deduction.—Generally, line 9, column (c) may not exceed the amount from the worksheet above. However, in a year in which a net operating loss occurs, this limitation does not apply even if the loss is created by the dividends-received deduction. See sections 172(d) and 246(b).

Line 10, Column (a).—Enter dividends from FSCs that are attributable to foreign trade income and that are eligible for the 100% deduction provided in section 245(c)(1)(A).

Line 11, Columns (a) and (c).—Enter only those dividends that are subject to the elective provisions of section 243(b) and that are entitled to the 100% dividends-received deduction under section 243(a)(3). Cooperatives making this election are subject to the provisions of section 1561.

Line 12, Column (a).—Enter foreign dividends not reportable on lines 3, 6, 7, 8, or 10 of column (a). Exclude distributions of amounts constructively taxed in the current year or in prior years under subpart F (sections 951 through 964).

Line 13, Column (a).—Include income constructively received from controlled foreign corporations under subpart F. This amount should equal the total of amounts reported on Schedule I, Form(s) 5471.

Line 14, Column (a).—Include gross-up for taxes deemed paid under sections 902 and 960.

Line 15, Column (a).—Enter taxable distributions from an IC-DISC or former DISC that are designated as not being eligible for a dividends-received deduction. No deduction is allowed under section 243 for a dividend from an IC-DISC or former DISC (as defined in section 992(a)) to the extent the dividend: **(1)** Is paid out of the corporation's accumulated IC-DISC income or previously taxed income, or **(2)** Is a deemed distribution under section 995(b)(1).

Line 16, Column (a).—Include the following: **(1)** Dividends (other than capital gain dividends and exempt-interest dividends) that are received from regulated investment companies and that are not subject to the 70% deduction; **(2)** Dividends from tax-exempt organizations; **(3)** Dividends (other than capital gain dividends) received from a real estate investment trust which, for the tax year of the trust in which the dividends are paid, qualify under sections 856 through 860; and **(4)** Dividends not eligible for a dividends-received deduction because of the holding period of the stock or an obligation to make corresponding

payments with respect to similar stock. Two situations in which the dividends-received deduction will not be allowed on any share of stock are: **(a)** If the cooperative held it 45 days or less (see section 246(c)(1)(A)), or **(b)** To the extent the cooperative is under an obligation to make related payments for substantially similar or related property.

Schedule H

Deductions and Adjustments under Section 1382

Complete Schedule H as explained below (lines 1 and 2 apply only to section 521 cooperatives).

Cooperatives have an option under section 1388(j)(1) to use losses attributable to one or more allocation units to offset earnings of one or more other allocations, as may be provided for in the bylaws of the cooperative, but only to the extent that such earnings and losses are derived from business done with or for patrons. If a cooperative exercises the section 1388(j)(1) option, it must provide the information specified in section 1388(j)(3) by written notice to its patrons. Special rules also apply if a cooperative has acquired the assets of another cooperative pursuant to a section 381(a) transaction. See section 1388(j) for more information. Cooperatives may engage in the practice of netting earnings and losses under section 1388(j) and still be eligible for tax-exempt treatment. See section 521(b)(6).

Line 1.—Enter the amount actually or constructively paid as dividends during the tax year on common stock (whether voting or nonvoting), preferred stock, capital retain certificates, revolving fund certificates, letters of advice, or other documentary evidence of a proprietary interest in the cooperative association. Such deduction is applicable only to the tax year in which the dividends are actually or constructively paid to the holder of capital stock or other proprietary interest of the cooperative association. See Regulations section 1.1382-3(b) for more information.

Line 2.—Enter amounts paid on a patronage basis to patrons in money, qualified written notices of allocation, or other property (except nonqualified written notices of allocation) if the income involved was not from patronage. The amounts must be paid during the payment period which begins on the first day of the tax year and ends on the 15th day of the 9th month after the end of the tax year in which the income was earned. "Income not from patronage" includes incidental income from sources not directly related to marketing, purchasing, or service activities of the cooperative (such as income from the lease of premises, investments, or from the sale or exchange of capital assets) and from business done with or for the Government of the United States, or any of its agencies. See "Patronage dividends" below for an explanation of the term "qualified written notice of allocation." See section 1382(c)(2)(B) for deductibility of amounts paid in redemption of nonqualified written notices of allocation.

Line 3.—"Patronage dividends" include any amount paid to a patron by a cooperative based on business done with or for that patron under a pre-existing obligation of the cooperative to pay that amount. The amount is determined by reference to the net earnings of the organization from business done with or for its patrons.

To be deductible, patronage dividends must be paid during the payment period that begins on the first day of the tax year in which the patronage occurs and ends on the 15th day of the 9th month after the end of that tax year.

See sections 1382(e) and (f) for special rules for the time when patronage occurs if products are marketed under a pooling arrangement or if earnings are includible in the gross income of the cooperative for a tax year after the year in which the patronage occurred.

Patronage dividends may be in the form of money, qualified written notices of allocation, or other property (except nonqualified written notices of allocation). "Written notices of allocation" means any capital stock, revolving fund certificate, certificate of indebtedness, or other written notice, which tells the patron the stated dollar amount allocated to him or her by the cooperative and the part, if any, which is a patronage dividend. For a written notice of allocation to be qualified, 20% or more of the amount of the patronage dividend must be paid in money or a qualified check. See section 1388(c) and related regulations. See Rev. Rul. 81-103, 1981-1 C.B. 447, for the qualification of written notices of allocation issued to patrons by a payment of cash and a crediting of accounts receivable due from patrons.

In addition, one of the two following conditions **must** be met before a written notice of allocation is qualified:

(1) The patron must have at least 90 days from the date the written notice of allocation is paid to redeem the written notice of allocation in cash, and must receive written notice of the right of redemption at the time he or she received the written notice of allocation; OR

(2) The patron must consent to have the allocation treated as constructively received and reinvested in the cooperative. See section 1388(c)(2) and related regulations for information on how the consent must be made.

If a written notice of allocation does not qualify, no deduction is allowable at the time it is issued. However, the cooperative is entitled to a deduction or refund of tax when the nonqualified written notice of allocation is finally redeemed, if that notice was paid as a patronage dividend during the payment period for the tax year during which the patronage occurred. The deduction or refund is allowed, but only to the extent that amounts paid to redeem the nonqualified written notice of allocation are paid in money or other property (other than written notices of allocation) and are not more than the stated dollar amounts of the nonqualified written notice of allocation. See section 1382(b) and related regulations.

Note: *See section 1383 for special rules for figuring the cooperative's tax in the year nonqualified written notices of allocation are redeemed. The cooperative is entitled to:* **(a)** *a deduction in the tax year the nonqualified written notices of allocation are redeemed (if permitted under section 1382(b)(2) or (4) or section 1382(c)(2)(B)); OR* **(b)** *a tax credit based on a recomputation of tax for the year(s) the nonqualified written notices of allocation were issued. See instructions for line 32f.*

The following are **not** patronage dividends:

(1) Amounts paid to patrons out of earnings not from business done with or for patrons;

(2) Amounts paid to patrons out of earnings from business done with or for other patrons to whom no amounts are paid, or to whom smaller amounts are paid for substantially identical transactions;

(3) Amounts paid to patrons to redeem capital stock, or to redeem certificates of indebtedness, revolving fund certificates, retain certificates, letters of advice, or other similar documents; and

(4) Amounts paid to patrons without reference to the net earnings of the cooperative organization from business done with or for its patrons.

Tax Computation

Line 3, Schedule J

A cooperative should compute its tax on its taxable income using the schedule below. Members of a controlled group should see the instructions below for lines 1 and 2 before proceeding.

If its taxable income (line 30, Form 990-C) on page 1 is:

Over-	But not over-	Its tax is:	Of the amount over-
0	$50,000	15%	0
$50,000	75,000	$7,500 + 25%	$50,000
75,000	100,000	13,750 + 34%	75,000
100,000	335,000	22,250 + 39%	100,000
335,000	-----	34%	0

Lines 1 and 2. Members of a controlled group, as defined in section 1563, are entitled to one $50,000 amount and one $25,000 amount (in that order) on line 2a.

When a controlled group adopts or later amends an apportionment plan, each member must attach to its tax return a copy of its consent to this plan. The copy (or an attached statement) must show the part of the amount in each taxable income bracket apportioned to that member. There are other requirements as well. See Regulations section 1.1561-3(b) for the requirements and for the time and manner of making the consent.

Equal Apportionment Plan. If no apportionment plan is adopted, the members of the controlled group must divide the amount in each taxable income

Each member of a controlled group must compute the tax as follows:

1. Enter the taxable income (line 30, page 1)	
2. Enter line 1 above or the cooperative's share of the $50,000 taxable income bracket, whichever is less	
3. Subtract line 2 from line 1	
4. Enter line 3 or the cooperative's share of the $25,000 taxable income bracket, whichever is less	
5. Subtract line 4 from line 3	
6. 15% of line 2	
7. 25% of line 4	
8. 34% of line 5	
9. If the taxable income of the controlled group exceeds $100,000, enter this member's share of the lesser of: 5% of the excess over $100,000, or $11,750. (See instructions for additional 5% tax below.)	
10. Add lines 6 through 9. Enter here and on Schedule J, line 3	

bracket equally among themselves. For example, controlled group AB consists of cooperative A and cooperative B, both calendar year cooperatives. They do not elect an apportionment plan. Therefore, cooperative A is entitled to $25,000 (one-half of $50,000) in the taxable income bracket on line 2a(i) and $12,500 (one-half of $25,000) in the taxable income bracket on line 2a(ii). Cooperative B is also entitled to the same amount in each taxable income bracket.

Unequal Apportionment Plan. Members of a controlled group may elect an unequal apportionment plan and divide the taxable income brackets as they wish. There is no need for consistency between taxable income brackets. Any member of the controlled group may be entitled to all, some, or none of the taxable income bracket. However, the total amount for all members of the controlled group cannot be more than the total amount in each taxable income bracket.

Additional 5% tax. Members of a controlled group are treated as one entity for purposes of figuring the applicability of the additional 5% tax that must be paid by cooperatives with taxable income in excess of $100,000. If the additional tax applies, each member of the controlled group will pay that tax based on the part of the amount that is used in each taxable income bracket to reduce that member's tax. See section 1561(a). Each member of the group must enter its share of the additional 5% tax on line 2b, Schedule J and attach to its tax return a schedule that shows the taxable income of the entire group as well as how its share of the additional tax was figured.

Line 4a. Foreign tax credit.—Form 1118, Computation of Foreign Tax Credit—Corporations, explains when a cooperative can take this credit for payment of income tax to a foreign country.

Line 4b—Other credits:

- *Possessions tax credit.* See **Form 5712,** Election To Be Treated as a Possessions Corporation Under Section 936, for rules on how to elect to claim the possessions tax credit. Compute the credit on **Form 5735,** Computation of Possessions Corporation Tax Credit Allowed Under Section 936.
- *Credit for fuel produced from a nonconventional source.* A credit is allowed for the sale of qualified fuels produced from a nonconventional source. Section 29 contains a definition of qualified fuels, provisions for figuring the credit, and other special rules. Attach a separate schedule to the return showing the computation of the credit.

Also see **Form 8801,** Credit for Prior Year Minimum Tax, if any portion of the credit is disallowed solely because of the tentative minimum tax limitation. See section 53(d).

Line 4c. General business credit.—The general business credit includes:

- *Investment credit.* The investment credit was generally repealed for property placed in service after 1985. See **Form 3468,** Investment Credit, for exceptions.

Note: *Excess investment credit not used by the cooperative* **must** *be passed through to the patrons. This credit* **cannot** *be carried over or back. See section 46(h) for details.*

- *Jobs credit.* The jobs credit, if elected, is allowed for hiring members of targeted groups during the tax year. See **Form 5884,** Jobs Credit, for definitions, special rules, and limitations.

Do not take an expense deduction for the part of the wages or salaries paid or incurred which is equal to the amount of the jobs credit (determined without regard to the limitation based on the tax (section 38(c)).

- *Alcohol fuel credit.* A cooperative may be able to take a credit for alcohol used as fuel. Use **Form 6478,** Credit for Alcohol Used as Fuel, to figure the credit.
- *Credit for increasing research activities.* See **Form 6765,** Credit for Increasing Research Activities (or for claiming the orphan drug credit).
- *Low-income housing credit.* See section 42 and **Form 8586,** Low-Income Housing Credit.
- *Disabled access credit.* A cooperative may be able to take a credit for certain expenditures paid or incurred to assist individuals with disabilities. See "Important Change" on page 1 for more information on this credit.

Form 3800, *General Business Credit.* Complete Form 3800 if the cooperative has: **(1)** more than one of the above credits; **OR (2)** a credit carryforward or carryback (including one from an ESOP credit); **OR (3)** a passive activity credit. Enter the amount of the general business credit on the appropriate line and check the Form 3800 box on that line.

Form 3800 is not required if the cooperative has only one of the general business credits (and items (2) and (3) do not apply). Instead, attach the applicable credit form to the return and check the appropriate box for that credit.

If the cooperative's only general business credit is the disabled access credit, attach Form 8826 to the return and write "From Form 8826" in the space to the left of line 4c.

Line 4d. Credit for prior year minimum tax.—Use Form 8801 to figure the minimum tax credit and any carryforward of that credit.

Line 7—Recapture Taxes:

- *Recapture of investment credit.* If property is disposed of or ceases to be qualified property before the end of the life-years used in computing the regular or energy investment credit, there may be a recapture of the credit. See **Form 4255,** Recapture of Investment Credit.
- *Recapture of low-income housing credit.* If you must recapture part of the low-income housing credit because there has been a decrease in the qualified basis of a building from the prior year or if you disposed of the building or an ownership interest in it, see **Form 8611,** Recapture of Low-Income Housing Credit, and section 42(j).

Line 8a. Alternative minimum tax.—Attach **Form 4626,** Alternative Minimum Tax—Corporations, if taxable income or (loss) before the net operating loss deduction when combined with adjustment and tax preference items (including the adjusted current earnings adjustment) exceeds **(a)** $40,000, or **(b)** the cooperative's allowable exemption amount. See Form 4626 for details. Reduce alternative minimum tax by any credit allowed under section 38(c)(2) on line 19 of Schedule A, Form 3800. Write on the dotted line to the left of line 8a, "Sec. 38(c)(2)—$(amount)."

Line 8b. Environmental tax.—The cooperative may be subject to the environmental tax if the modified alternative minimum taxable income of the cooperative exceeds $2,000,000. See Form 4626 for details.

Line 9. Interest on tax deferred under the installment method for certain non-dealer property installment obligations.—If an obligation arising from the disposition of property to which section 453A applies is outstanding at the end of the tax year, the cooperative must include the interest due under section 453A(c) in the amount to be entered on line 9, Schedule J. Write on the dotted line to the left of line 9, Schedule J, "Sec. 453A(c)–$(amount)." Attach a schedule showing the computation.

Schedule L

Balance Sheets

Line 5. Tax-exempt securities.—Include on this line: (1) State and local government obligations, the interest on which is excludible from gross income under section 103(a), and (2) Stock in a mutual fund or other regulated investment company that distributed exempt-interest dividends durir.g the tax year of the cooperative.

Schedule M-1

Reconciliation of Income per Books With Income per Return

Line 5c. Travel and entertainment.—Include on this line: 20% of meals and entertainment not allowed under section 274(n); expenses for the use of an entertainment facility, the part of business gifts in excess of $25; expenses of an individual allocable to conventions on cruise ships in excess of $2,000; employee achievement awards in excess of $400; the cost of entertainment tickets in excess of face value (also subject to 20% disallowance); the cost of skyboxes in excess of the face value of non-luxury box seat tickets; the part of the cost of luxury water travel not allowed under section 274(m); and expenses for travel and entertainment not allowed as a deduction.